Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337

COMMENTS OF ALASKA COMMUNICATIONS SYSTEMS

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Table of Contents

Executive Summary

ACS has expended substantial resources to participate in each stage of the Bureau's development of the Connect America Cost Model ("CACM") but does not yet see that Bureau has taken into account the problems ACS has identified with the CACM. ACS has explained in detail how the CACM falls short of the requirements established by the Commission in the *USF-ICC Transformation Order*, to accurately predict forward-looking costs of an efficient voice and broadband provider in the geographic area in which that provider operates. Specifically, the CACM omits entire categories of costs incurred in the provision of voice and broadband in the territories served by the ACS ILECs. Further, the CACM fails to reflect Alaska-specific costs in the categories of costs that it does include. In addition, the CACM lacks transparency and accountability, which are requirements of the *USF-ICC Transformation Order*.

For the ACS ILECs, which operate in the most underserved state in the nation, the CACM appears to predict costs that are far below realistic levels, resulting in support amounts that will be insufficient for ACS to accept. ACS therefore urges the Bureau either to correct the flaws in the CACM identified by ACS, or to adopt an alternative path for CAF Phase II support allocation so that sufficient support is provided to ensure that affordable voice and broadband can be provided in the Alaska price cap territories.

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Alaska Communications Systems ("ACS")[1] hereby submits these comments in response to the publication by the Wireline Competition Bureau ("Bureau") in the Federal Register, "Wireline Competition Bureau Releases Connect America Phase II Cost Model Virtual Workshop Discussion Topics,"[2] in which it seeks comment on a number of virtual workshop topics related to the development of the Connect America Cost Model ("CACM").

I. INTRODUCTION

ACS has been actively involved at each stage in the Commission's efforts to develop a comprehensive, forward-looking cost-based model for the allocation of Connect America Fund

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[1] In these comments, ACS signifies the four incumbent local exchange carrier ("ILEC") subsidiaries of Alaska Communications Systems Group, Inc.: ACS of Alaska, LLC, ACS of Anchorage, LLC, ACS of Fairbanks, LLC, and ACS of the Northland, LLC.

[2] 78 Fed. Reg. 5765 (Jan. 28, 2013), referencing *Wireline Competition Bureau Announces Commencement of Connect America Phase II Cost Model Virtual Workshop*, Public Notice, DA 12-1561 (Wireline Competition Bur., rel. Oct. 9, 2012); *Wireline Competition Bureau Releases Additional Discussion Topics for Connect American Phase II Cost Model Virtual Workshop*, Public Notice in WC Docket Nos. 10-90 and 05-337, DA 12-1687 (Wireline Competition Bur., rel. Oct. 19, 2012); *Wireline Competition Bureau Announces Availability of Version One of the Connect America Fund Phase II Cost Model,* Public Notice in WC Docket Nos. 10-90 and 05-337, DA 12-2011 (Wireline Competition Bur., rel. Dec. 11, 2012); *Wireline Competition Bureau Releases Further Discussion Topics for Connect America Cost Model Virtual Workshop,* Public Notice in WC Docket Nos. 10-90 and 05-337, DA 12-2029 (Wireline Competition Bur., rel. Dec. 17, 2012); *Wireline Competition Bureau Announces Availability of Version Two of the Connect America Fund Phase II Cost Model,* Public Notice in WC Docket Nos. 10-90 and 05-337, DA 13-70 (Wireline Competition Bur., rel. Jan. 17, 2013).

("CAF") high-cost support among price cap incumbent local exchange carriers ("ILECs"), as directed by the Commission in the *USF/ICC Transformation Order*.[3] ACS has participated in the request for comments on a proposed model,[4] submitted its own model,[5] analyzed (to the extent possible) the CQBAT model,[6] provided frequent feedback on model design and inputs,[7] participated in the Bureau's CAF Phase II Model Workshop,[8] submitted comments to the on-line virtual workshop,[9] and met with staff on numerous occasions.[10]

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[3] *Connect America Fund*, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (2011) ("*USF/ICC Transformation Order*").

[4] *See Connect America Fund, High-Cost Universal Service Support*, Comments of Alaska Communications Systems Group, Inc., WC Docket Nos. 10-90 and 05-337 (filed Feb. 1, 2012); *see also Request for Connect America Fund Cost Models*, Public Notice in WC Docket Nos. 10-90 and 05-337, DA 11-2026 (Wireline Competition Bur., rel. Dec. 15, 2011) ("ACS Model Request Comments").

[5] Letter to Marlene H. Dortch, Secretary, Federal Communications Commission, from Karen Brinkmann, Counsel for Alaska Communications Systems, *Request for Connect America Fund Cost Models*, Public Notice in WC Docket Nos. 10-90 and 05-337, DA 11-2026 (Wireline Competition Bur., rel. Dec. 15, 2011), Submitted Pursuant to *Second Protective Order* in WC Docket Nos. 10-90 and 05-337, DA 12-192 (Wireline Competition Bur., rel. Feb. 10, 2012), submitting the ACS model ("ACS Model").

[6] Based on the access that ACS has had to both the CACM and the CQBAT model to date, in most respects the CACM is nearly identical to the CQBAT model. Therefore, ACS's prior analysis of the CQBAT model is directly relevant to the CACM.

[7] *See, e.g., Connect America Fund, High-Cost Universal Service Support*, Comments of Alaska Communications Systems Group, Inc., WC Docket Nos. 10-90 and 05-337 (filed July 9, 2012) ("ACS Model Design/Data Inputs Comments"); *see also Connect America Fund, High-Cost Universal Service Support*, Reply Comments of Alaska Communications Systems Group, Inc., WC Docket Nos. 10-90 and 05-337 (filed July 23, 2012) ("ACS Model Design/Data Inputs Reply Comments"). *See also generally* ACS April 27 Ex Parte, ACS May 11 Supplemental Cost Model Letter, ACS July 27 Ex Parte, and ACS August 28 Ex Parte (cited *infra.* note 10).

[8] *See* Alaska Communications CAF II Model, FCC Workshop, Sept. 13-14, 2012, presentation by David Blessing, Karen Brinkmann, and Richard Cameron, available at http://transition.fcc.gov/wcb/tapd/universal_service/caf/CAF2-Alaska.pdf ("ACS Presentation FCC Workshop").

[9] *See* FCC Connect America Phase II Cost Model Virtual Workshop, Comments by Alaska Communications Systems, http://www.fcc.gov/blog/wcb-cost-model-virtual-workshop-2012 (filed Nov. 19, 2012, 2012 and Jan. 11, 2013) ("ACS Virtual Workshop Comments").

The Bureau now solicits additional input on the first two versions of the proposed CACM and certain specific questions posed on-line in the virtual workshop. The FCC's CACM model suggests that the significant amount of input ACS has provided has not yet been incorporated into the model. ACS respectfully requests that all of its prior submissions in these proceedings be incorporated into the Bureau's consideration of the CACM, as they are directly relevant to the Bureau's current work on the model methodology and inputs. In these Comments, ACS explains why the CACM, in its current state of development, falls short of the requirements established by the Commission in the *USF-ICC Transformation Order*, at least for Alaska, as did the CQBAT model advocated by the ABC Coalition. ACS summarizes the minimum parameters for a CAF Phase II model for price cap ILECs established by the Commission, and observes where the CACM thus far fails to meet those parameters. Finally, ACS outlines a path for a more reasonable CAF Phase II support allocation for Alaska price cap territories.

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[10] *See* Letter (*Ex Parte* Notice) to Marlene H. Dortch, Secretary, Federal Communications Commission, from Karen Brinkmann, Counsel to Alaska Communications Systems Group, Inc., *Developing a Unified Intercarrier Compensation Regime, et al.,* CC Docket Nos. 01-92 and 96-45, WC Docket Nos. 03-109, 05-337, 07-135, and 10-90, WT Docket No. 10-208, and GN Docket No. 09-51 (filed April 27, 2012) ("ACS April 27 Ex Parte"); Letter to Marlene H. Dortch, Secretary, Federal Communications Commission, from Karen Brinkmann, Counsel to Alaska Communications Systems Group, Inc., *Developing a Unified Intercarrier Compensation Regime, et al.,* CC Docket Nos. 01-92 and 96-45, WC Docket Nos. 03-109, 05-337, 07-135, and 10-90, WT Docket No. 10-208, and GN Docket No. 09-51 (filed May 11, 2012), submitted subject to Second Supplemental Protective Order in WC Docket Nos. 05-337 and 10-90 ("ACS May 11 Supplemental Cost Model Letter"); Letter (*Ex Parte* Notice) to Marlene H. Dortch, Secretary, Federal Communications Commission, from Richard Cameron, Assistant Vice President and Senior Counsel for Alaska Communications, *Developing a Unified Intercarrier Compensation Regime, et al.,* CC Docket Nos. 01-92 and 96-45, WC Docket Nos. 03-109, 05-337, 07-135, and 10-90, WT Docket No. 10-208, and GN Docket No. 09-51 (filed July 27, 2012) ("ACS July 27 Ex Parte"); Letter (*Ex Parte* Notice) to Marlene H. Dortch, Secretary, Federal Communications Commission, from Richard Cameron, Assistant Vice President and Senior Counsel for Alaska Communications, *Developing a Unified Intercarrier Compensation Regime, et al.,* CC Docket Nos. 01-92 and 96-45, WC Docket Nos. 03-109, 05-337, 07-135, and 10-90, WT Docket No. 10-208, and GN Docket No. 09-51 (filed August 28, 2012) ("ACS August 28 Ex Parte").

II. GEOGRAPHIC SPECIFICITY IS A FUNDAMENTAL REQUIREMENT FOR CAF PHASE II

Any methodology used to set support for the price cap ILECs serving Alaska must account for the unique characteristics and costs associated with serving a state that is unlike any other.[11] For support to Alaska, the Bureau must factor in the "extraordinarily large land mass that must be traversed both within the state and between the state and rest of the nation, the dispersion of the population, extremely harsh weather and soil conditions, a uniquely short construction season, constraints on the local labor force, the absence of a road system for hundreds of villages and towns, and limited access to the power grid, among others. These factors increase the cost and risk of facilities deployment in the state, rendering the state dissimilar to any other."[12] Under the *USF/ICC Transformation Order,* "[a]ny model the Bureau adopts … must accurately reflect Alaska-specific costs or may not be used to generate support levels for Alaska LECs."[13]

Geography, geology, weather, demographics, network infrastructure, power availability, and labor constraints all play roles in differentiating Alaska from the rest of the nation. Any model from which support will be disbursed to the Alaska price cap ILECs, and any broadband build-out requirements on which support is conditioned, thus must account for the Alaska-specific categories of costs, the unique network topography, the demographics and the geography of the state. ACS has documented how these factors affect ILEC costs.

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[11] *See, e.g., USF/ICC Transformation Order,* ¶ 188 (specifying that any model used to allocate CAF Phase II funding must accurately predict the forward-looking costs specific to the geographic area served by the ILEC receiving funding).

[12] ACS Model Request Comments at 3.

[13] ACS Model Request Comments at 3. Moreover, the Commission stated that the Bureau may exempt areas from model-based CAF Phase II if the model cannot accurately predict the costs of serving remote and insular areas such as Alaska, permitting the continuance of CAF Phase I support levels. *See id*. at 2, *referencing USF/ICC Transformation Order,* ¶ 193.

First, the use of fiber is not universal for middle-mile transport due to the vast distances between the serving wire centers in remote villages and the nearest fiber-based network facilities in the population centers of Anchorage, Fairbanks, and Juneau.[14] The reality is that many serving wire centers are connected to the network by point-to-point microwave or satellite-based radio connections, with such transport covering hundreds or thousands of miles at varying costs.[15] The model fails to recognize the substantial additional costs of transporting this traffic hundreds of miles further between Anchorage, Fairbanks or Juneau and distant points in remote areas of Alaska, many of which are not accessible by road, have no access to the electric grid, and must be served by microwave or satellite facilities.[16] The small size of the customer base in rural locations further undermines the economic viability of fiber deployment. In short, inter-office transport is a critical cost factor for both voice and broadband services in Alaska in ways that significantly differ from middle-mile transport costs in the Lower 48 states.

Second, there is no Internet access point ("IAP") within the state of Alaska. This necessarily means that for Alaskans to access the Internet there must be a connection to an IAP that is separated by a thousand miles or more of undersea cable, in either Portland, Oregon or Seattle, Washington.[17] The model assumes that an Internet peering location always is located at a regional tandem *within the ILEC LATA*. The model thus fails to incorporate the substantial

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14 *See* ACS Virtual Workshop Comments discussing inter-office transport costs.

15 *See* ACS Model Request Comments at 4. In fact, fiber simply is not cost-effective when a point of presence may be a thousand miles away from the network aggregation point. *See* ACS Model Design/Data Inputs Comments at 8. Even where ACS has fiber facilities, the distance from the serving wire center to the aggregation point may still be hundreds of miles, vastly different from typical interoffice transport in the Lower 48 states, and a significant cost factor for ACS. *See* ACS Model Request Comments at 6.

16 ACS July 27 Ex Parte at 2 and ACS August 28 Ex Parte at 2.

17 *See* ACS May 11 Supplemental Cost Model Letter at 2-3, ACS Model Request Comments at 5.

costs of transport associated with hauling traffic via undersea cable between Seattle or Portland and Anchorage.[18]

Third, the costs of providing service in a state such as Alaska with its geographical, infrastructure, weather, power, and labor challenges are simply higher than the operations costs incurred in the Lower 48. For example, all of these factors can play a role in what would be a routine truck roll in the Lower 48 states. In Alaska, this might require chartering a small, single-engine plane, flying a technician to an island location or remote village site without road access, paying the technician for two to three days, depending on weather conditions, incurring higher fuel costs to access the site, and hauling equipment in and out with the technician on each site visit.[19] In addition, serving communities off the road system, not connected by fiber-based transport, often means that other cost components are higher in Alaska than in other states. For example, ACS recently had to install a new switch and extend service to a subdivision in Klawock, the combined cost of which exceeded $750,000 for installation and equipment serving about 400 customer locations. Because the ACS ILECs have no fiber-based backhaul, they must install dedicated switches in such locations despite the very small community size – and ACS serves some fifty such Bush communities. Most locations cannot be served by a single soft switch, though the CACM appears to assume that they could – the cost of satellite backhaul connections would make such an arrangement inefficient.

These Alaska-specific factors demonstrate that a single model cannot accurately estimate costs and allocate a reasonable amount of support for the price cap carriers operating in the rest

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18 *See* ACS April 27 Ex Parte, Attachment at 1.

19 *See* ACS Model Request Comments at 5.

of the nation and also be able to account for the unique circumstances found in Alaska.[20] Other states simply do not have costs that are driven by factors such as lack of road access, lack of municipal power, lack of terrestrial transport, extreme geological and climate conditions, thousand-mile separations between points of presence, non-contiguous Internet access points, and a construction season that may last only two to three months.[21] Moreover, as the Commission has acknowledged, Alaska lags behind the rest of the nation in both infrastructure deployment and broadband adoption. All of these factors must be factored into CAF Phase II support.

Finally, some effort must be made to rationalize the model-estimated amount of support to engineering estimates of what it would actually take to meet the CAF Phase II obligations in the ACS service areas. ACS has previously provided such estimates to the Commission in order to demonstrate that, in this particular case, ACS is similar to the contiguous price cap LECS in that it will require additional funding beyond current levels to meet the increased obligations. This conclusion that any model's results must be validated against actual experience is intuitively reasonable and at the heart of any serious empirical or statistical analysis. While the Bureau has opined that the fact that support levels would be reduced under the CACM is not necessarily indicative that the model is inaccurate,[22] neither do reduced support levels under the

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20 *See* ACS Model Design/Data Inputs Reply Comments at 12.

21 *See* ACS Model Design/Data Inputs Comments at 7. The challenges that ACS faces in deploying, maintaining, and operating voice and broadband networks in Alaska, "set [it] apart from other price cap LECs so significantly that it is impossible for a one-size-fits-all model that may be applicable for price cap LECs operating in the Lower 48 States to address the support needs for ACS to serve a state with challenges like no others." *See id*. at 6.

22 "Wireline Competition Bureau Seeks Comment on Connect America Phase II Support for Price Cap Area Outside of the Contiguous United States," Public Notice, DA 13-162, ¶ 9 (rel. Feb. 8, 2013).

CACM prove that a carrier has been an inefficient provider. These results may simply indicate that the model is flawed when applied to the unique circumstances in Alaska. In all events, it bears further investigation by the Bureau and the public.

ACS continues to urge the Bureau to "approach CAF Phase II funding for the insular price cap LECs by identifying the factors that make their service areas particularly high-cost and difficult to serve, and reflecting in their CAF support calculations the unique circumstances of these carriers."[23] As discussed below, one way to accomplish this is to improve the CACM with Alaska-specific modifications. The alternative is evaluating the needs of the territories served by the Alaska price cap ILECs on their own merits. The *USF/ICC Transformation Order* requires one or the other approach.

III. PROBLEMS WITH THE CACM

As ACS repeatedly has pointed out in these proceedings, the CACM, like the CQBAT model before it, suffers from lack of transparency and inflexibility. The model cannot be thoroughly understood by the public without improved access to the mechanism and greater disclosure of the assumptions that underlie it. Moreover, it cannot be easily improved upon due to this inflexibility and lack of transparency. It is simply impossible to reproduce or validate the results of the CACM because the public does not have access to all the input development worksheets and the model's algorithms.[24] Moreover, carriers impacted by the model do not have

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23 *See* ACS Model Design/Data Inputs Comments at 3.

24 *See* ACS May 11 Supplemental Cost Model Letter at 2 (ACS raised concerns about "whether the information provided thus far is insufficient for third-party analysis of the cost inputs used in the model …; whether access to the model's mechanisms has been insufficient to allow meaningful third-party analysis of the assumptions underlying the model …; whether CQBAT has set up reasonable process to permit third-parties to verify model outputs and evaluate changes in different variables.") Neither the Bureau nor the model's proponents have yet responded to the detailed questions submitted by ACS at the Bureau's request.

the ability to run the model in real time in order to assess the value of changes.[25] Carriers can review the model, but they are not given the ability to truly test it. In short, without the ability analyze the underlying algorithms and input development, carriers are asked to trust the model as provided; they cannot verify it and they cannot effectively participate in the model development process.

ACS believes the model fails to take into account Alaska-specific factors, as discussed above, the consequence of which is under-funding for the ACS ILECs as seen in the data runs that ACS has been able to examine thus far. However, it is difficult for ACS to identify precisely where the model makes faulty assumptions, or suggest improvements to the model's mechanisms, because ACS has only limited visibility into the CACM. For example, with limited access to model inputs, such as access to specific input prices but not to the quantity of specific pieces of equipment or facilities placed by the model, it difficult to assess whether the model is reasonably predicting costs for the areas served by ACS when ACS does not know how many fiber feet, DSLAMs or nodes may be included in the model for any given service area. ACS is troubled that these concerns have not been addressed, despite repeated discussion of them. It seems that this monumental change in universal service support is moving forward toward implementation without sufficient analysis or accountability.

Like the CQBAT model before it, the CACM is not truly available to the public. The operation of the model is tightly controlled by the Universal Service Administrative Company and CostQuest. The assumptions underlying cost inputs have not been fully disclosed.[26] The

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[25] *See* ACS May 11 Supplemental Cost Model Letter at 2.

[26] *See* ACS Model Request Comments at 4. *See also* ACS April 27 Ex Parte (data inputs and mechanisms are not accessible to third parties); ACS July 27 Ex Parte at 2 and ACS August 28 Ex Parte at 2-3 ("ACS and other parties have had only limited access to the CQBAT model,

CACM is opaque and simply cannot be fully analyzed by anyone who was not involved in preparing the model or been given full access to all the formulas and data inputs.[27] ACS has identified specific areas where it cannot validate model results due to inability to access information used in the model, notably with regard to labor costs, plant mix, sharing factor for outside plant, calculating opex, sizing of network facilities, routing, and determining customer locations.[28]

It is concerning that the Bureau continues to move forward with a model that is so severely lacking in transparency and accessibility. Establishing CAF Phase II support based on a model to which interested parties cannot gain access is a failure to provide adequate notice and opportunity for comment to the public as required under the Administrative Procedures Act. Moreover, the results produced by the early versions of the CACM do not suggest that the Bureau has tackled the necessary work of adjusting the model to account for the specific costs of carriers serving remote, insular areas such as Alaska. As Parrish, Blessing & Associates note in their recent analysis that demonstrated that the CQBAT did not account for the higher costs in

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because the proponents of the model have not made available all of the necessary information about the underlying cost inputs. ACS continues to believe that any model the Commission adopts, along with the input values used to determine support amounts in particular areas, must be available for review by the public, such that the model and all underlying data, formulae, computations, and associated software must be available to all interested parties for review and comment. In addition, all underlying data should be verifiable, engineering assumptions reasonable, and outputs reasonable. Moreover, the public must have access, not just to the underlying source code, but to the input data as well, in order to be able to test the model and offer modifications."). Again, the CACM nearly reflects the CQBAT model, on which ACS has commented repeatedly.

27 *See* ACS Model Design/Data Inputs Reply Comments at 11 (discussing the opacity of the CQBAT model and the inability for anyone outside the ABC Coalition to analyze it). However, the ACS model provides details on algorithms, framework, assumptions, and inputs. *See* ACS Model.

28 *See* ACS Virtual Workshop Comments.

insular areas, price cap ILECs as a group will receive an increase in high-cost support of more than 67 percent under CAF Phase II.[29] The support of the ACS ILECs, however, will decrease by more than two-thirds under the CACM as currently designed – this despite Commission findings that broadband deployment in Alaska lags behind the rest of the nation. Intuitively, this strongly suggests that the design or the assumptions of the CACM are flawed when applied to Alaska.

Any model used to determine critical support for price cap ILECs must be transparent and accessible, most particularly to those carriers impacted.[30] Moreover, it must be flexible enough to permit geographic-specific adjustments. As described above, the CACM does not appear to include any Alaska-specific costs,[31] nor does it offer any accommodations to address the unique difficulties and associated high costs of serving insular price cap ILEC areas.[32] Notably, under the CACM the $19 million per year high cost support that ACS has received would be reduced by $12 million per year, and eliminated at the end of five years.[33] Yet, ACS has estimated that the real cost in meeting the Commission's broadband deployment goals for

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29 *See* "Broadband Cost Model: Insular Area Broadband Network Economic Cost Simulation for Puerto Rico," at 5, prepared by Parrish, Blessing and Associates, Inc., submitted in *Request for Connect America Fund Cost Models*, FCC Public Notice in WC Docket Nos. 10-90 and 05-337 (Wireline Competition Bur., rel. Dec. 15, 2011) (filed Jan. 18, 2013).

30 *See* ACS Model Design/Data Inputs Comments at 5.

31 *See* ACS Model Request Comments at 4 (referring to the CQBAT model); ACS April 27 Ex Parte (CQBAT model does not adequately capture Alaska costs); ACS Model Design/Data Inputs Reply Comments at 5 (ACS does not believe any Alaska-specific costs were included in the CQBAT model). Again, the CACM does not appear to be substantially different from the CQBAT model.

32 *See* ACS Model Design/Data Inputs Reply Comments at 11.

33 *See* ACS Presentation FCC Workshop.

unserved locations will greatly exceed current support levels.[34] The disparity between the model results and ACS's assessment of the funding needs highlights how the CACM clearly ignores not only the costs of the extremely long-haul middle-mile transport via satellite, microwave, and undersea cables that are critical to providing both voice and broadband in Alaska, but also the differences in operating costs faced by Alaska carriers in general.[35] If only a single model is adopted, that model must be capable of being tailored to the circumstances of every price cap ILECs' actual service territory, and support the type of network that is dictated by those varying conditions and circumstances.[36]

IV. CORRECTING THE CACM

ACS has observed that "adoption of the … model in its present form could not only preclude additional ACS investments in broadband, but could also jeopardize ACS's ability to maintain basic voice services in remote areas of ACS's service territory, including Alaska Native villages it currently services."[37] A "one-size-fits-all" model will not provide sustainable universal service support for insular price cap ILECs.[38] ACS believes that the service conditions and

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34 *See* ACS Presentation FCC Workshop.

35 *See* ACS Model Design/Data Inputs Comments at 8; *see also* ACS Virtual Workshop Comments (the modeling approach on plant mix leads to a systematic bias; opex calculations do not accounts for costs of transporting Internet traffic from Alaska to the nearest Internet peering location, which is a significant cost for ACS; using a soft switch for voice capability does not make sense in Alaska because associated transport costs would be unworkable; the model underestimates the cost of inter-office transport in Alaska, notably the costs of the undersea cable necessary to access the nearest Internet peering location and the costs of satellite and microwave transport between serving wire centers in the Alaska bush or remote villages and the network aggregation points in Anchorage, Fairbanks, and Juneau).

36 *See* ACS Model Design/Data Inputs Comments at 8.

37 ACS July 27 Ex Parte at 1.

38 *See* ACS Model Design/Data Inputs Reply Comments at 11. *See also* ACS Model Design/Data Inputs Comments at 2.

circumstances presented by insular price cap LECs presents an "either/or" situation. Either the Bureau must adjust the model to account for the unique cost characteristics of providing voice and broadband services in Alaska,[39] or it must provide an alternative, Alaska-specific solution for the costs of building, maintaining, and operating voice and broadband-capable networks so that Alaskans have access to reasonably comparable voice and broadband services as the rest of the nation, at affordable rates.[40]

ACS has provided the Bureau with details concerning the missing cost inputs for service to its price cap territories, the costs of middle-mile transport both within the state and to points outside the state, that are necessary for serving Alaska.[41] Specifically, a model must address the microwave and satellite transport within the state of Alaska, as well as the undersea cables to carry traffic outside the state of Alaska. However, factoring in these costs is necessary to calculate the support that is needed today and must also be included in any model for Phase II support in Alaska. In addition, Alaska-specific operational costs must be included in a model to expand broadband over the next five years. ACS has devoted substantial resources to developing this information in detail for inclusion in the model, and intends to provide it shortly. This information is critical for ensuring that the model will provide sufficient support for the areas served by Alaska price cap LECs, as required by the Commission. The third factor that must be addressed is the lack of transparency and accountability, as discussed above.

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39 ACS August 28 Ex Parte at 3; *see also generally* ACS Model Design/Data Inputs Comments.

40 ACS August 28 Ex Parte at 3; *see also generally* ACS Model Design/Data Inputs Comments.

41 *See generally* ACS Model. *See also* ACS Model Request Comments at 5 and ACS August 28 Ex Parte at 3.

The next phase of this proceeding, therefore, should include three essential steps, from ACS's perspective: (i) Revealing the assumptions and algorithms underlying the model; (ii) amending the model to add cost categories not currently factored in; and (iii) running Alaska-specific costs through the model. Only then will ACS be able to determine why the model produces the results it does, and parties will have an opportunity to analyze the merits of the assumptions, algorithms and inputs being used. Only then can the Bureau be confident that the model will produce a reliable set of results.

V. CONCLUSION

ACS has not had full access to the Connect America Cost Model or its underlying inputs, but based on the access that ACS has been provided the model does not reflect Alaska-specific costs. A model that will deliver essential support without considering the unique factors and costs of providing service in a state will not provide the support required for ACS to expand broadband or continue voice services in certain of its most high-cost and remote areas. After more than a year of analysis and input, it is time for the Bureau to either modify its model to addresses the circumstances of insular price cap ILECs or undertake a separate approach for insular areas such as Alaska. Imposing broadband build-out requirements without providing sufficient support would violate the law and would fail to achieve the Commission's broadband objectives. ACS looks forward to working with the Bureau on these next steps.

Respectfully submitted,

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